

GAO

Report to the Clerk of the House of
Representatives

May 1992

FINANCIAL AUDIT

House Recording
Studio Revolving Fund
for 1990 and 1989





**United States
General Accounting Office
Washington, D.C. 20548**

**Comptroller General
of the United States**

B-114842

May 20, 1992

**The Honorable Donald K. Anderson
Clerk of the House of Representatives**

Dear Mr. Anderson:

As you requested, we have audited the accompanying balance sheets of the House of Representatives Recording Studio Revolving Fund as of December 31, 1990 and 1989, and the related statements of operations and cash flows for the years then ended. We completed our audit work on September 20, 1991. These financial statements are the responsibility of the Revolving Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

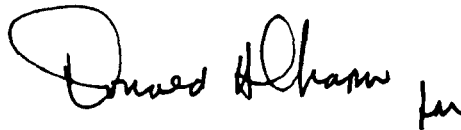
As discussed in notes 1 and 2, the financial statements present only the House of Representatives Recording Studio Revolving Fund and are not intended to present the financial position and results of operations of the House Recording Studio as a whole.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the House of Representatives Recording Studio Revolving Fund as of December 31, 1990 and 1989, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Our report on internal control structure and compliance with laws and regulations for the year ended December 31, 1990, together with the Revolving Fund's financial statements and accompanying notes for the years ended December 31, 1990 and 1989, is included in this report.

We are sending copies of this report to the Chairman and Ranking
Minority Member of the Committee on House Administration and to the
Special Committee on the House Recording Studio.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Charles A. Bowsher". The signature is fluid and cursive, with a large initial "C" and "B".

Charles A. Bowsher
Comptroller General
of the United States

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Report on Internal Control Structure and Compliance With Laws and Regulations

We have audited the financial statements of the House of Representatives Recording Studio Revolving Fund for the years ended December 31, 1990 and 1989, and have issued our opinion thereon. This report pertains only to our consideration of the Revolving Fund's internal control structure and our review of compliance with laws and regulations for the year ended December 31, 1990. Our report on internal accounting controls and compliance with laws and regulations for the year ended December 31, 1989, is presented in GAO/AFMD-90-88, dated July 19, 1990.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit of the financial statements of the Revolving Fund for the year ended December 31, 1990, we considered its internal control structure in order to determine our auditing procedures. Our purpose was to express an opinion on the Revolving Fund's financial statements, not to provide assurance on its internal control structure.

The Revolving Fund's management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, management must make estimates and judgments to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For purposes of this report, we have classified the Revolving Fund's significant internal control structure policies and procedures into the following categories:

- revenues,
- expenditures,
- materials and supplies inventory,
- equipment, and
- financial reporting.

For all of the internal control structure categories listed above, we obtained an understanding of the design of the relevant policies and procedures, determined whether they had been placed in operation, and assessed the associated control risk. We performed limited tests of control procedures for all the categories. In addition, we performed audit tests to substantiate account balances associated with each control category. Such tests can serve to identify weaknesses in the internal control structure.

Our consideration of the internal control structure would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. During our tests, we did not identify any matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

The management of the Revolving Fund is also responsible for compliance with applicable laws and regulations. As part of obtaining reasonable assurance as to whether the financial statements are free of material misstatement, we selected and tested transactions and records to determine the Revolving Fund's compliance with certain provisions of the following laws and regulations which, if not complied with, could have a material effect on the Revolving Fund's financial statements:

- terms and provisions of 2 U.S.C. 123b and
- rules and regulations of the Special Committee on the House Recording Studio and of the Committee on House Administration.

It should be noted that our objective was not to provide an opinion on the overall compliance with such provisions. Because of the limited purpose

for which our tests of compliance were made, the laws and regulations tested did not cover all legal requirements with which the Revolving Fund has to comply.

The results of our tests for fiscal year 1990 indicate that, with respect to the items tested, the Revolving Fund complied in all material respects with those provisions of laws and regulations referred to above. With respect to transactions not tested, nothing came to our attention that caused us to believe that the Revolving Fund had not complied, in all material respects, with those provisions.

Balance Sheets

	December 31,	
	1990	1989
Assets		
Current Assets		
Revolving fund cash	\$ 853,302	\$ 871,424
Petty cash	200	200
Accounts receivable	9,223	20,332
Inventory of materials and supplies, at cost	16,111	15,923
Total current assets	878,836	907,879
Fixed Assets		
Equipment (note 3)	2,490,072	2,086,167
Less accumulated depreciation	1,339,362	1,157,972
Total fixed assets	1,150,710	928,195
Total Assets	\$2,029,546	\$1,836,074
Liabilities and Government Equity		
Liabilities		
Accounts payable	\$ 305,313	\$ 161,488
Advance from House Finance Office	200	200
Total liabilities	305,513	161,688
Government Equity		
Contributed capital	183,410	183,410
Revolving fund balance	1,540,623	1,490,976
Total government equity	1,724,033	1,674,386
Total Liabilities and Government Equity	\$2,029,546	\$1,836,074

The accompanying notes are an integral part of these statements.

Statements of Operations

	Year ended December 31,	
	1990	1989
Revenues		
Sales	\$406,598	\$464,697
Expenses		
Depreciation of equipment	189,650	182,623
Supplies	59,247	58,004
Outside processing	56,584	75,575
Maintenance and repairs	27,816	37,825
Small equipment	10,690	11,401
Office supplies and expenses	7,732	6,132
Miscellaneous	5,232	9,768
Total expenses (note 2)	356,951	381,328
Income From Operations	49,647	83,369
Other Income		
Gain on disposal of equipment	0	2,000
Net Income	49,647	85,369
Revolving fund balance at beginning of the year	1,490,976	1,405,607
Revolving Fund Balance at the End of the Year	\$1,540,623	\$1,490,976

The accompanying notes are an integral part of these statements.

Statements of Cash Flows

	Year ended December 31,	
	1990	1989
Cash Flows From Operating Activities		
Cash received from customers	\$417,707	\$472,308
Cash paid to suppliers	(23,664)	(39,633)
Net cash provided by operating activities	394,043	432,675
Cash Flows From Investing Activities		
Capital expenditures	(412,165)	(219,612)
Net cash used in investing activities	(412,165)	(219,612)
Net increase (decrease) in cash	(18,122)	213,063
Cash at beginning of year	871,624	658,561
Cash at End of Year	\$853,502	\$871,624
Reconciliations of Net Income to Net Cash Provided by Operating Activities		
Net income	\$ 49,647	\$ 85,369
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	189,650	182,623
Gain on disposal of equipment	0	(2,000) ^a
Decrease (increase) in assets		
Accounts receivable	11,109	7,611
Inventory of materials and supplies	(188)	(308)
Increase in liabilities		
Accounts payable	143,825	159,380
Total adjustments	344,396	347,306
Net Cash Provided by Operating Activities	\$394,043	\$432,675

^aNoncash investing activity due to trade-in allowance on new equipment.

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

Note 1. Significant Accounting Policies

The House Recording Studio was established pursuant to section 105 of the Legislative Branch Appropriation Act, 1957 (2 U.S.C. 123b). The Studio is managed by a director under the jurisdiction of the Clerk of the House of Representatives and is subject to the direction and control of the Special Committee on the House Recording Studio. The Studio makes photographic prints, as well as radio and television tape recordings, for Members and committees of the House for official business purposes. The prices charged for services are set by the Clerk of the House, subject to the approval of the Special Committee on the House Recording Studio.

All moneys received from the Revolving Fund's operations are deposited into the Revolving Fund and are available for the Studio's operations. Each Member is authorized an allowance for the conduct of the official and representational duties of his or her office. Charges for Studio services provided to Members may be paid (1) by the House Finance Office from a Member's allowance account, (2) directly by a Member, or (3) by a media organization through a Member. Charges for Studio services provided to committees may be paid by the House Finance Office from committee funds or by a media organization through a committee.

All inventory items are valued on a weighted-average cost basis. Various supply items such as light bulbs and photo paper are charged directly to an expense account when purchased.

Equipment is depreciated over a 10-year or a 5-year period using the straight-line method. The equipment capitalization minimum is \$1,000.

Note 2. Other Studio Operating Costs

Certain costs of operating the House Recording Studio are financed through funds appropriated to the Architect of the Capitol or the Clerk of the House rather than through the Revolving Fund and, accordingly, are not included in the Revolving Fund's financial statements. However, only a portion of those costs can be readily determined. During 1990 and 1989, the Architect of the Capitol made renovations in the amounts of \$30,756 and \$218,700, respectively, to various studio areas, which were paid from his appropriations. Identifiable costs paid from appropriated funds of the Clerk of the House or the Architect of the Capitol on behalf of the Studio for the years ended December 31, 1990 and 1989, are shown in table 1.

Table 1: Identifiable Studio Operating Costs Paid From Appropriated Funds

Costs Paid	1990	1989
Salaries and benefits	\$1,119,000	\$1,096,000
Reimbursement to House Information Systems	139,691	77,779
Equipment expenses paid to House Office Equipment Service	67,190	7,024
Telephone	19,072	16,727
Travel	6,282	5,852
Training	3,200	0
Office supplies and expenses	3,389	0
Studio renovations	30,756	218,700
Total	\$1,388,580	\$1,422,082

Some House Recording Studio Revolving Fund employees also work on televising House floor proceedings, thus salaries and benefits are allocated based on management's estimate of time worked on each activity. In addition, the costs incurred by both the Architect of the Capitol and the Clerk of the House related to Studio space occupancy, building maintenance, office furnishings, and utilities cannot be readily determined.

Note 3. Equipment

Table 2 summarizes the changes in the equipment account for each component for the years ended December 31, 1990 and 1989.

Table 2: Changes in Equipment by Studio Component

	Radio	Television	Photographic laboratory	Office	Total
Balance — December 31, 1988	\$217,268	\$1,425,182	\$231,836	\$351	\$1,874,637
Additions	0	191,932	29,680	0	221,612
(Reductions)	0	0	(10,082)	0	(10,082)
Balance — December 31, 1989	217,268	1,617,114	251,434	351	2,086,167
Additions	81,298	327,242	3,625	0	412,165
(Reductions)	(595)	(736)	(6,929)	0	(8,260)
Balance — December 31, 1990	\$297,971	\$1,943,620	\$248,130	\$351	\$2,490,072

Table 3: Sales and Operating Income by Studio Component

	Total		Radio		Television		Photographic laboratory	
	1990	1989	1990	1989	1990	1989	1990	1989
Revenues								
Sales	\$406,598	\$464,697	\$60,059	\$67,707	\$265,428	\$300,204	\$81,111	\$96,786
Expenses								
Depreciation of equipment	189,650	182,623	11,468	16,748	140,999	126,939	37,183	38,936
Supplies	59,247	58,004	12,175	18,629	21,019	12,298	26,053	27,077
Outside processing	56,584	75,575	0	0	56,135	75,164	449	411
Maintenance and repairs	27,816	37,825	5,331	2,026	16,533	32,320	5,952	3,479
Small equipment	10,690	11,401	2,537	1,667	4,273	6,714	3,880	3,020
Office supplies and expenses	7,732	6,132	2,577	2,044	2,578	2,044	2,577	2,044
Miscellaneous	5,232	9,768	1,744	3,256	1,744	3,256	1,744	3,256
Total expenses (note 2)	356,951	381,328	35,832	44,370	243,281	258,735	77,838	78,223
Income From Operations	49,647	83,369	24,227	23,337	22,147	41,469	3,273	18,563
Other Income								
Gain on disposal of equipment	0	2,000	0	0	0	0	0	2,000
Net Income	\$ 49,467	\$ 85,369	\$24,227	\$23,337	\$ 22,147	\$ 41,469	\$ 3,273	\$20,563

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